

Cambridge Incentive Zoning Nexus Study



**PRESENTATION TO
CAMBRIDGE CITY COUNCIL
HOUSING COMMITTEE
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Incentive Zoning Ordinance

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- Established in 1988
- Applies to commercial development over 30,000 gross square feet in which developers seek special permits to change requirements or increase density
- Requires housing contributions of \$4.58 per sq. foot
- First 2,500 square feet are exempt
- From 2004 to 2013, generated \$1.79 million in housing contributions
- Provision for annual CPI adjustments

Study Purpose and Scope

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- Address legal need to demonstrate rational basis (nexus) for policy and contribution rate
- **Update Cambridge's current rate**
- Assess existing policies and options
- Recommend new contribution rate and policy changes

Overview of Recommendations

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- Expand uses subject to housing contributions
- Remove the special permit trigger
- Raise housing contribution from \$4.58 to \$10 to \$12 per sq. foot
- Continue to apply a single contribution rate and make regular CPI adjustment

Study Methodology

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10 Year Projected Development and Employment by Use and Industry

Worker Survey

Estimated Number of Workers Demanding Housing in Cambridge by Use and Industry

Occupational Dist.
& Earnings

Estimated Number of Workers Demanding Housing in Cambridge by Annual Earnings

MSA Data on
Households

Estimated Number of Single & Multi-Worker Households Demanding Housing in Cambridge by Low, Moderate and Middle Income Levels and Household Size

Final Estimated Housing Units by Tenure and Number of BRs to Address Demand from New Development among Low, Moderate and Middle Income Households

Estimate Development Costs and Required Subsidy for Calculated Impact Contribution Rate

Note: Summary presentation. See Nexus Study for complete analysis.

Estimate of Projected New Development and Jobs

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Type of Use	Projected Square Feet of Development	Estimated Jobs
Office and R&D Lab Space	3,800,000	11,943
Institutional Space	300,000	600
Retail and Services	135,000	422
Restaurant	240,000	1,067
Hotel	120,000	120
Total	4,595,000	14,152

- Reflects development activity over past ten years along with planned development projects

Note: Summary presentation. See Nexus Study for complete analysis.

Estimated Housing Demand From Projected New Development

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Income Group	One-Person Households	Two-Person Households	Three Person Households	Four Person Households	Total
Low Income	42	24	11	31	108
Moderate Income	136	56	21	18	231
Middle Income	82	96	63	112	353
Total	260	176	95	161	692

Note: Summary presentation. See Nexus Study for complete analysis.

Housing Mix Assumptions in Calculations

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- Rental and Ownership Units
 - Low-income units are all rental units
 - Moderate income units are 30% ownership/70% rental
 - Middle income units are 50% ownership/50% rental
- Unit Size
 - One person households are 100% one BR units
 - Two person households are 20% one BR /80% two BR units
 - Three person households are 80% two BR/20% three BR units
 - Four person or larger households are 100% three BR units

	1 BR Units	2 BR Units	3 BR Units	Total
Rental	200	135	111	446
Ownership	95	82	69	246
Total Units	295	217	180	692

Note: Summary presentation. See Nexus Study for complete analysis.

Rental Housing Development Costs and Subsidy

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- **\$214.4 million** estimated total development cost (TDC) for 446 rental units, based on recent comparable projects
- Rental NOI based on rent at 30% of household income less operating costs
- Total NOI Of \$3,752,690 supports mortgage debt of \$53.019 million and equity investment of \$4,691,000
- **Required subsidy of \$156,717,000**
 - (TDC – supportable mortgage – supportable equity)

Ownership Development Costs and Subsidy

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- **\$118.3 million** total development cost for 246 ownership units , based on recent comparable projects
- Sales price based on 30% of household income to pay mortgage principal, interest, taxes and insurance with 5% down payment
 - Average sales price for moderate income = \$165, 913
 - Average sales price for middle income = \$346,887
- Total revenue from housing sales = \$72.9 million
- **Required subsidy of \$45,242,000**

Combined Subsidy and Unadjusted Calculated Impact Contribution Rate

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	All Units	Low Income Households	Moderate Income Households	Middle Income Households
Total Development Subsidy	\$202,141,000	\$51,721,027	\$87,238,614	\$63,181,360
Projected Square Feet Subject to Housing Contribution	4,538,000	4,538,000	4,538,000	4,538,000
Subsidy Required per Square Foot	\$44.54	\$11.40	\$19.22	\$13.92

Note: Summary presentation. See Nexus Study for complete analysis.

Adjusted Calculated Impact Contribution Rate

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- Other non-Cambridge sources help fund required subsidy for low and moderate income housing
- Cambridge Affordable Housing Trust Fund contributed 33.9% of subsidy to recent low and moderate income projects
- No outside subsidy is assumed for middle income units
- Applying the 33.9% share to contribution rate for low and moderate income housing units results in the calculated impact contribution of \$24.30
 - 10.38 for low moderate income units
 - 13.92 for middle income units

Review of Existing Ordinance and Policy Options

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Policy Options considered:

- Change uses subject to ordinance
- Alter conditions that trigger housing contributions
- Vary contribution rate by use
- Change 2,500 exemption

Policy Options: Uses and Triggers

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- Majority of development is not subject to housing contributions
 - Some uses are not covered by Incentive Zoning Ordinance: 2.44 million SF of institutional development from 2004 to 2013
 - Many projects do not need the special permits that trigger housing contributions: 26% of new commercial, lab and retail projects from 2004 to 2013 made housing contributions (\$1.789 million)
 - Considerable new development with affordable housing impact does not make housing contributions
- Proposed solutions
 - Expand uses subject to housing contributions
 - Apply contributions to non-residential development independent of permit requirements

Regional Context

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Community	Rate	Threshold	Uses	Triggers
Cambridge-current policy	\$4.58	30,000	Commercial, lab, retail, research facilities	Projects seeking specific special permits
Cambridge-recommended	\$10 to \$12	30,000	Above plus lodging, institutional and industrial	All projects by size and uses
Boston	\$8.34	100,000	Office, retail, lab, hotel, institutional	All projects by size and uses
Somerville	\$5.15	30,000	All except housing, govt. religious, artists studios	All new construction or substantial rehab with special permits or site plan review
Barnstable County	\$1.27 to \$15.34	10,000	Office, medical, retail, restaurant, warehouse, other	Based on size, location and use

Note: Summary presentation. See Nexus Study for complete analysis.

Competitive Impact of Linkage Fees

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- Calculated impact rate is 5x increase in current rate
 - **Almost 2.5X Boston's fee and over 4X Somerville's level**
- Fee will add to project development costs
 - Impact may be greater with other Cambridge policies
- Developers can reduce acquisition cost, lower investment returns or raise rental rates in response to increased rate
 - Rental impact: adds \$2.29 psf over ten year lease , + 4.1 to 6.5%
 - Impact on equity returns: ~ 100 basis point decline
- East Cambridge rents are among highest in region
- West Cambridge rents are above competing suburbs
 - 50% higher for lab space and 7% for office space
- Combined factors favor contribution rate below maximum

Recommended Rate and Policies

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- Remove special permit trigger and apply housing contributions to all projects over 30,000 sf with defined uses
- Expand project definition to add 7 uses (hotel/motel, radio/TV studios, institutional health, education and social services, light industry/wholesale and heavy industry)
- Set rate at \$10 to \$12 per square foot
 - Limit disparity with surrounding communities
 - Reduce impact on Cambridge competitiveness
- Continue single rate across uses & CPI increases
- Eliminate 2,500 square foot exemption